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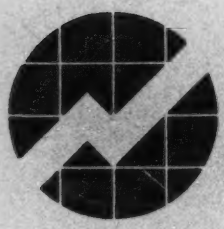
KEDI ECONOMIC SURVEY

MARCH ISSUE

March 31, 1980



**KENT ECONOMIC AND DEVELOPMENT INSTITUTE**

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# KEDI ECONOMIC SURVEY

## MARCH ISSUE

March 31, 1980

President: Vladimir J. Simunek

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# 1.0 OVERVIEW AND ASSUMPTIONS

## 1.01 OVERVIEW

President Carter's anti-inflation package was announced on March 14. A quote from the last KEDI issue is appropriate here. "Assuming that no drastic changes in the Administrations' policy would take place, there will not be a RECESSION." The package represents what can best be described as semi-drastic action. This Institute takes the position that the proposals are a step in the right direction and the maximum that probably could be afforded by Carter in the present situation.

It is maintained here, even with the semi-drastic White House news, that no recession will take place in 1980 or 1981 or 1982 unless an additional Washington D.C. made shock will take place. It is forecast that 1980 will be flat, slow growth will occur in 1981 and faster growth in the following year. Again, this assumes that no really drastic actions are taken. Drastic examples are, wage and price controls, prime rate over 21 percent, to name only two "downers."

KEDI Projection

| | February 1980 Projection | | March 1980 Projection | |
|---|---|---|---|---|
| | 1980 | 1981 | 1980 | 1981 |
| Real Growth | +1.2 | +2.6 | +0.8 | +2.5 |
| Inflation | +13.9 | +12.2 | +15.0 | +12.8 |
| Unemployment, end of year | 6.2 | 6.1 | 6.4 | 6.2 |
| Federal Deficit (Calendar year, $bil.) | -21.1 | -22.3 | -13.8 | -10.9 |
| Prime Rate (year average) | 15.79 | 13.61 | 18.42 | 17.21 |

Calculations and common sense show that the accuracy of predictions will depend on the future actions or lack of actions on the part of both the executive and legislative branches of government. If credit is not tightened any more, an economic recession will be avoided. The crucial frontiers are as follows: the prime rate in excess of 20 percent, credit growth of more than 10 percent, and a calendar year 1981 deficit of more than roughly $10 billion. Any of these three or a combination of them would spell recession.

However, at this time the outlook for 1980 does not give a picture of that economic reversal. As was stated, the horizon for this year appears about as flat as the corn acres of Iowa and central Illinois or "Joe Sixpack's" left-open beer. A small but growing number of economists are supporting the view that a recession is not coming. Economists at the University of Michigan revised their forecast from one of mild recession to a prediction of very slow growth through 1980 and part of 1981. The mid-March revision was made due to stronger than expected (At the University of Michigan) consumer purchases, larger income tax refunds and hence purchasing power, and some government attempt to make a dent in the decline in home building.

Also, the Conference Board, in the February issue of its monthly Statistical Bulletin present a more optimistic outlook. Prior to this time they also were expecting some recession.

G. William Miller, Secretary of the Treasury, said recently that, "All economists last fall were predicting a recession." This Institute is small but not totally unknown and the staff takes umbarge at that remark.

Starting in 1976, KEDI has been predicting a slowing of economic growth in 1979 and lower levels in 1980. It has been stated here since last June that there would not be a recession in 1979. KEDI forecast is highlighted on the following page.

1.02 ASSUMPTIONS

The following assumptions are parts of this forecast. Compared with assumptions incorporated into the February, 1980, forecasts, the changes concern the Assumptions No. 3 and 7.

1. In 1980, approximately 95% of the demand for oil in this country will be met. In 1981 all basic U.S. demands for oil should be met. The weighted price of oil in 1980 will go up to the $34 range. In 1981, it is expected the price will go up on $40 and in 1982, on $46 per barrel.

2. It is still to current to develop a longer-lasting assumption for the impact of the Iranian-Mid East crisis. Compared with the December 1979 forecast, slightly higher price increases of energy items and substantially higher defense orders have been considered.

3. We expect that the Administration and Federal Reserve will maintain a "wait-and-see" position after the March 14 fiscal and monetary measures. No more drastic changes in fiscal and monetary policies will occur. Policy of maintaining high interest rates and tight money will continue throughout 1980 and will ease, but not earlier than late in 1981.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation by gradually reducing the excess demand. The Federal Reserve Board will, at long last, begin a policy of setting the limits to the monetary growth by long-term commitments,

## KEDI FORECAST HIGHLIGHTS

Table 1.0

| Indicator | Unit | 1978 | 1979 | 1980 | 1985 |
|---|---|---|---|---|---|
| Gross National Product | bil. const. 72$ | 1399.2 | 1431.7 | 1442.5 | 1740.6 |
| Index of Industrial Production | 1967 =100 | 145.2 | 152.2 | 153.7 | 173.4 |
| Capacity Utilization | % | 84.3 | 85.7 | 85.5 | 86.0 |
| Unemployment Rate | % | 6.0 | 5.9 | 6.5 | 6.2 |
| Private Housing Starts | mil. units | 2.020 | 1.721 | 1.308 | 1.912 |
| Car Sales | mil. units | 11.3 | 10.8 | 10.2 | 12.9 |
| Implicit GNP Price Deflator | 1972 =100 | 152.1 | 165.5 | 185.2 | 290.6 |
| Consumer Price Index | 1967 =100 | 195.3 | 217.5 | 250.3 | 409.7 |
| Producer Price Index | 1967 =100 | 209.3 | 236.2 | 277.3 | 420.8 |
| Federal Deficit | bil.$ | -27.7 | -11.2 | -13.8 | -21.2 |
| Personal Income | bil.$ | 1717.4 | 1924.2 | 2132.1 | 3334.9 |
| Prime Rate | % | 9.06 | 12.76 | 18.22 | 10.10 |
| Mortgage Rate | % | 9.30 | 10.60 | 13.20 | 9.98 |
| Currency plus Demand Deposits | bil.$ | 326.6 | 363.8 | 408.9 | 678.2 |
| Commercial and Industrial Loans | bil.$ | 230.9 | 265.7 | 275.9 | 480.3 |

not just short-term as has been the policy in the past. Price and wage controls must remain the last resort of stabilization policy. For 1982 and consecutive years, we assume that the Administration will pursue a more vigorous anti-inflation policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1980, 1981, and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. Low harvest in the U.S.S.R is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring the record crops. Compared with the previous forecast, the exports of grain have been reduced.

7. It is projected here that the rates of growth in 1979, 1980-1982 in the major industrial countries will be as follows for real GNP:

| | 1980 | 1981 | 1982 |
|---|---|---|---|
| West Germany | 3.1% | 2.9% | 3.0% |
| Italy | 2.1 | 2.0 | 2.6 |
| Japan | 2.0 | 2.0 | 2.3 |
| Great Britain | 1.7 | 1.6 | 1.9 |
| France | 2.0 | 2.1 | 2.2 |

1.1 REAL GROWTH
(Table 01. on page 9)

As has been expected here, the signs are that the economy is slowing. However, they still do not indicate any dramatic downturn.

The Index of Industrial Production increased by 0.2 percent in February, due mainly to the temporary gain in the output of cars. Other industries have shown some slight gain or some slight decline. The February index was 0.7 percent above the year-earlier figure. It was also equal to the recent high which was reached in March of 1979.

The output of consumer goods went up by 0.9 percent in February. Production of such home goods as appliances and furniture declined by 0.6 percent.

The prospects are that the first quarter of 1980 will be fairly good. The current quarter will likely show about the same growth as in the last quarter of 1979. Preliminary data indicate that the economy has been growing at a yearly rate of 1-2 percent.

All things considered, business outlays are still relatively strong. The latest survey of business spending intentions show that money spent on plant and equipment will inch forward by 1 percent or 2 percent this year, adjusted for inflation. Spending plans, overall did not change from the previous survey done in late 1979. It seems that many businessmen do not think the economy is going to be in bad shape. They are not slashing plans to buy or cancelling plans to build very much at all, despite the steep jumps in interest rates.

The Commerce Department reported that U.S. companies plan to spend approximately $197 billion for plant and equipment this year. That is up 11 percent from the 1979 total. A Conference Board survey of the largest manufacturing companies revealed a 13 percent gain in such spending. Those figures are not adjusted for inflation.

The highest interest rates, the uncertainty about the economy, and the disarray on financial markets are still not affecting capital spending at this time to any large measure. More effect will be seen later in the following quarter.

The latest survey of buying agents by the National Association of Purchasing Management Inc. showed that both new orders and production

are quite positive. Optimism continued among buying agents. Liquidation of inventories continued but at a much slower rate, indicating that adjustments are over and more companies are reacting to the positive pace of business seen in most industries. Factory orders went up by 3.6 percent, seasonally adjusted, in January. That was the largest monthly gain in over a year. The factory orders gain would have been closer to 8 percent, if it had not been for the 6 percent drop in the transportation equipment area. That drop was attributed mostly to the nosedive taken by the aircraft industry.

New orders for durable goods were up ever so slightly. They reached a seasonally adjusted rate of $82.64 as compared to the previous month revised figures of $82.03 billion. (Every little bit counts.)

Another plus was found in construction spending. That went up by 1.6 percent in January from the December level. Public construction spending moved ahead by 9.4 percent. This offset the .5 percent decline in private construction. To eliminate the effects of inflation, measuring the spending in 1972 dollars still leaves a gain of 1.6 percent over December or an annual rate of $119 billion (as compared to an unadjusted for inflation rate of $246 billion annual rate).

There is some bad news, but it was not unexpected. First, there was a drop in car sales. Such sales declined in February by about 6.7 percent. If it hadn't been for the strong import showing and the numerous U.S. makers sales incentives, it might have been a steeper drop.

In mid-March U.S. auto sales were down by 16.2 percent from the year earlier level. That is viewed as being less of a drop than many had expected. Sales of large, gas-guzzlers were especially weak. (That

reflects the good economic sense of most car buyers, but it is unfortunate that auto makers had not foreseen this and that so many thousands of auto makers are without jobs in the large car producing plants.) Japan has stepped into fill the void. Toyota sales were up over 88 percent. There are many Americans that might prefer to buy American but "the better mouse trap" was not built in this country.

There was a drop in retail sales. However, considering that January sales were extremely high, the drop is not too bad. Retail sales fell in February by 0.7 percent from the level of the prior month. The February level still exceeded the December, 1979 sales.

## 1.2 PRICES
(Table 02. on page 12)

As compared to the previous forecast, the forecast for prices has been revised upward mainly due to two factors. First, Carter's package contained , among other things, a new tax on imported oil which will take effect in June. This contributes to additional gains in the price of gasoline. The increase in interest rates is also obviously involved. It is estimated here that the Consumer Price Index in 1980 will be almost 2 points higher than had been stated in the previous issue of KEDI.

| | Before the package and adjustment | | After the package and adjustment | |
|---|---|---|---|---|
| | 1980 | 1981 | 1980 | 1981 |
| Consumer Price Index Yearly Average (1967=100) | 247.6 | 277.7 | 250.3 | 282.5 |

Consumer prices jumped ahead by 1.4 percent that month, yielding an annual rate of inflation of 16.8 percent which matched the January rate. As was stated in section 1.01, it is projected here that for 1980 the inflation

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TABLE 01. REAL GROWTH
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1978* | 1979 | | | | 1979 |
|---|---|---|---|---|---|---|---|
| | | | 1* | 2* | 3* | 4 | |
| Gross National Product, 1972$ | bil.$ | 1399.2 | 1430.6 | 1422.3 | 1433.3 | 1440.7 | 1431.7 |
| Index of Indust. Production | 1967=100 | 145.2 | 152.2 | 151.9 | 152.2 | 152.2 | 152.2 |
| Unemployment Rate | % | 6.0 | 5.8 | 5.7 | 5.8 | 5.9 | 5.9 |
| Capacity Utilization Rate | % | 84.3 | 86.7 | 85.9 | 85.4 | 84.6 | 85.7 |
| Private Housing Starts | mil. units | 2.020 | 1.616 | 1.837 | 1.825 | 1.604 | 1.721 |
| Car Sales | mil. units | 11.3 | 11.6 | 10.5 | 10.8 | 9.8 | 10.8 |

| Indicator | Unit | 1979 | 1980 | | | | 1980 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Gross National Product, 1972$ | bil.$ | 1431.7 | 1443.0 | 1439.2 | 1441.1 | 1447.3 | 1442.5 |
| Index of Indust. Production | 1967=100 | 152.2 | 152.3 | 150.9 | 152.6 | 155.8 | 153.7 |
| Unemployment Rate | % | 5.9 | 6.3 | 6.5 | 6.6 | 6.5 | 6.5 |
| Capacity Utilization Rate | % | 85.7 | 85.1 | 84.2 | 85.8 | 86.7 | 85.5 |
| Private Housing Starts | mil. units | 1.721 | 1.295 | 1.370 | 1.324 | 1.241 | 1.308 |
| Car sales | mil. units | 10.8 | 9.6 | 9.9 | 10.5 | 10.9 | 10.2 |

| Indicator | Unit | 1980 | 1981 | | | | 1981 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Gross National Product, 1972$ | bil.$ | 1442.5 | 1460.3 | 1473.8 | 1486.5 | 1492.7 | 1478.3 |
| Index of Indust. Production | 1967=100 | 153.7 | 156.8 | 157.5 | 158.1 | 158.9 | 157.8 |
| Unemployment Rate | % | 6.5 | 6.5 | 6.5 | 6.5 | 6.3 | 6.5 |
| Capacity Utilization Rate | % | 85.5 | 87.8 | 88.3 | 88.1 | 88.4 | 88.2 |
| Private Housing Starts | mil. units | 1.308 | 1.368 | 1.447 | 1.563 | 1.500 | 2.470 |
| Car sales | mil. units | 10.2 | 10.6 | 11.2 | 11.3 | 11.5 | 11.2 |

*Historical data

rate will be 15 percent and for 1981; 12.8 percent. In 1980 the gains in prices will continue steadily. They will not gradually decline to an annual rate of 10 to 12 percent by the end of the year as some government economists have suggested.

Mr. Robert Russell, director of the Council on Wage and Price Stability said that he believed the inflation rate reached in February will not be exceeded during the rest of the year. He expressed the view that gasoline prices will go up "only" 3 or 4 percent a month, after rising 7 percent in each of the first two months of this year, except for June when Carter's tax on imported oil takes effect. He predicted that after that adjustment of about 8 percent, such prices will behave relatively well. KEDI does not agree. Price rises will continue to bedevil us sporadically as the various oil producing nations add more and more to their charges per barrel of oil.

Housing costs went up an adjusted 1.4 percent for the third straight month. Mortgage interest rates leaped ahead by 2.2 percent. That gain, considered with the slowing down in the housing industry, did help prevent the housing costs from being even higher than they were.

Be of good cheer, there was a wee bit of good news. The index for food prices did not go up in February, and the rise in January was a miniscule 0.1 percent. Also, the prices for apparel were only up by 0.6 percent between January and February. The government will also be refunding over $41 billion in over-paid taxes. So much for brief good news.

On the bleaker side again, medical costs went up by 1.5 percent, and entertainment costs were up by 1.2. The all-urban consumer price index went up by 14.1 percent between February of last year and this year. It was at 236.4 percent of the 1967 average.

Producer prices moved ahead by 1.5 percent last month as compared to January when such prices went up by 1.6 percent. On an unadjusted basis, the index for produce prices was up 1.4 percent and reached 235.4 percent of the 1967 level. Most of the gain is attributed to higher energy costs. Gains in the prices for chemicals, synthetic rubber and fibers, and other goods also were significant contributors to the overall picture.

Taking the global view, inflation darkens the picture from this perspective also. If it is any comfort, other countries are having even worse problems, especially Israel. In Germany, the wholesale price index was leaping ahead at an annual rate of 25 percent in Janaury. The current rate of 5.6 percent is low by comparison, but their inflation rate is now moving up as they are having trouble also getting results from the usual anti-inflation tools. In part, inflation is being imported to West Germany as import prices were up over 20 percent in the last 12 months (oil again a main culprit). In Japan, the wholesale price index has been gaining at an annual rate of 21 percent for three months.

The O.E.C.D. expects there will not be any economic growth, or very little of it in its 24 industrialized members. Inflation in the 11 or 12 percent rage is also forecast for these countries as compared to the 1979 rate of 10 percent.

In England last year, the inflation rate was above 15 percent. The Wall Street Journal quotes the chief economist for Merrill Lynch Economics Inc. in London as saying, "I'm afraid a very big recession would be necessary to squeeze out inflation now." Despite the Thatcher government attempts, inflation is running at an annual rate in excess of 19 percent. The hiking of the national sales tax to offset an

income tax cut contributed to that rate.

Inflation in France, also was in excess of 15 percent last year. The rate for the first quarter of this year is projected to be about 16 percent.

Interviews with business analysts conducted by the Wall Street Journal, reveal a general view that inflation will ease a bit but the price to pay will be a recession. Both views are disagreed with by this Institute. Regarding prices, there are multiple factors that will continue to combine to feed inflation, namely; energy prices, escalator clauses in wage contracts, rising social security taxes, the uplifting of the wage-increase guidelines by Carter to the top of 9.5 percent, and the lack of or presence of only infinitesimal productivity gains. Another indirect contributor is in the role of inventories which seem to be in a better balance with sales than last year. There are no huge inventories and hence inventory cutting is less likely to put any crimp in inflation in general.

## 1.3 EMPLOYMENT AND LABOR
(Table 03. on page 15)

The forecast for the unemployment rate has been raised somewhat in this issue. Two factors have contributed to the joblessness rate predicted now. First, the impact of Carter's package will be, on balance, a source of an additional 0.3 percent unemployment in 1980 and 0.3 in 1981.

The other factor has been the better than expected results in February. The jobless rate fell from 6.2 percent in January to 6.0 percent in February. Total employment increased last month to an adjusted 98 million--a 0.2 percent gain over January. This normally would be good news, but the Labor Department, for example, said that it increases concern about in-

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TABLE 02. PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

| Indicator | Unit | 1978* | 1979 | | | | 1979 |
|---|---|---|---|---|---|---|---|
| | | | 1* | 2* | 3* | 4 | |
| Consumer Price Index, NSA | 1967=100 | 195.3 | 207.0 | 214.1 | 221.1 | 227.7 | 217.5 |
| Producer Price Index, NSA | 1967=100 | 209.3 | 227.2 | 231.7 | 238.8 | 247.2 | 236.2 |
| Implicit GNP Price Deflator | 1972=100 | 152.1 | 160.2 | 163.8 | 167.2 | 170.7 | 165.5 |
| Gross National Product | bil.$ | 2107.6 | 2292.1 | 2329.8 | 2396.5 | 2459.4 | 2369.5 |
| Personal Cons. Expenditures | bil.$ | 1340.1 | 1454.2 | 1475.9 | 1528.6 | 1581.2 | 1510.0 |
| Gross Private Dom. Investment | bil.$ | 345.6 | 373.8 | 395.4 | 392.3 | 387.5 | 387.3 |

| Indicator | Unit | 1979 | 1980 | | | | 1980 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Consumer Price Index, NSA | 1967=100 | 217.5 | 238.9 | 246.9 | 255.5 | 260.7 | 250.3 |
| Producer Price Index, NSA | 1967=100 | 236.2 | 262.6 | 272.7 | 281.8 | 292.1 | 277.3 |
| Implicit GNP Price Deflator | 1972=100 | 165.5 | 176.0 | 182.7 | 188.3 | 193.9 | 185.2 |
| Gross National Product | bil.$ | 2369.5 | 2539.7 | 2629.4 | 2713.6 | 2806.3 | 2672.3 |
| Personal Cons. Expenditures | bil.$ | 1510.0 | 1602.4 | 1659.6 | 1711.3 | 1780.7 | 1688.5 |
| Gross Private Dom. Investment | bil.$ | 387.3 | 389.5 | 410.8 | 425.6 | 440.1 | 416.5 |

| Indicator | Unit | 1980 | 1981 | | | | 1981 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Consumer Price Index, NSA | 1967=100 | 250.3 | 268.7 | 278.1 | 286.0 | 297.1 | 282.5 |
| Producer Price Index, NSA | 1967=100 | 277.3 | 302.5 | 312.4 | 322.2 | 330.4 | 316.9 |
| Implicit GNP Price Deflator | 1972=100 | 185.2 | 197.5 | 201.3 | 206.2 | 211.3 | 204.1 |
| Gross National Product | bil.$ | 2672.2 | 2884.0 | 2966.8 | 3065.2 | 3154.1 | 3017.4 |
| Personal Cons. Expenditures | bil.$ | 1688.5 | 1836.4 | 1361.2 | 1970.7 | 2011.0 | 1919.8 |
| Gross Private Dom. Investment | bil.$ | 416.5 | 458.9 | 474.0 | 501.4 | 526.3 | 490.2 |

*Historical data

flation as the employment picture is one illustration of the lack of any meaningful slowdown that might help slow price gains.

The Carter package has also influenced the other indicators of employment and labor as used by this Institute.

| | Before the Package & adjustment | | After the Package & adjustment | |
|---|---|---|---|---|
| | 1980 | 1981 | 1980 | 1981 |
| Average workweek (hours) | 35.1 | 36.0 | 34.9 | 35.8 |
| Total employment increase | +1.5% | +2.8% | +1.3% | +2.7% |

Compared with the last forecast, the main additional decreases in this issue have been in employment in the following industries: housing, construction, appliances, carpeting, furniture, automobiles and related industries, rubber, and clay and stone products.

## 1.4 HOUSING
(Table 04. on page 17)

Housing starts in 1980 are predicted to drop by 17 percent instead of the previously reported 15 percent decline. For the year 1981, the forecast remains basically unchanged.

The revision of this forecast is due to the Administration's March 14 measures and the consequences, i.e., higher mortgage rates and tightening of mortgage credit availability.

Compared with other forecasters, KEDI's view of housing starts remains optimistic. The National Association of Home Builders predicts 1 million starts this year. Other forecasts fall into the 1.1 to 1.3 million range. The estimate here is for a total of 1.384 million starts.

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TABLE 03. EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1978* | 1979 | | | | 1979 |
|---|---|---|---|---|---|---|---|
| | | | 1* | 2* | 3* | 4 | |
| Population | mil. | 218.5 | 219.6 | 220.1 | 220.7 | 221.3 | 220.4 |
| Civilian Labor Force | mil. | 100.4 | 102.4 | 102.9 | 103.9 | 103.9 | 103.3 |
| Employed | mil. | 94.4 | 96.5 | 97.0 | 97.2 | 97.8 | 97.2 |
| -Agriculture | mil. | 3.3 | 3.3 | 3.3 | 3.4 | 3.3 | 3.3 |
| -Non Agriculture | mil. | 91.0 | 93.2 | 93.7 | 93.8 | 94.5 | 93.9 |
| Unemployment Rate | % | 6.0 | 5.77 | 5.73 | 5.81 | 5.88 | 5.80 |

| Indicator | Unit | 1979 | 1980 | | | | 1980 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Population | mil. | 220.4 | 221.9 | 222.6 | 223.4 | 224.1 | 223.0 |
| Civilian Labor Force | mil. | 103.3 | 104.2 | 104.8 | 105.6 | 106.4 | 105.3 |
| Employed | mil. | 97.2 | 97.6 | 98.0 | 98.7 | 99.5 | 98.5 |
| -Agriculture | mil. | 3.3 | 3.3 | 3.4 | 3.4 | 3.3 | 3.4 |
| -Non Agriculture | mil. | 93.9 | 94.3 | 94.6 | 95.3 | 96.2 | 95.1 |
| Unemployment Rate | % | 5.80 | 6.31 | 6.49 | 6.57 | 6.52 | 6.47 |

| Indicator | Unit | 1980 | 1981 | | | | 1981 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Population | mil. | 223.0 | 224.7 | 225.5 | 226.3 | 227.1 | 225.9 |
| Civilian Labor Force | mil. | 105.3 | 107.1 | 108.0 | 108.7 | 109.4 | 108.3 |
| Employed | mil. | 98.5 | 100.1 | 101.1 | 101.7 | 102.5 | 101.3 |
| -Agriculture | mil. | 3.4 | 3.3 | 3.3 | 3.4 | 3.3 | 3.3 |
| -Non Agriculture | mil. | 95.1 | 96.8 | 97.8 | 98.3 | 98.2 | 98.0 |
| Unemployment Rate | % | 6.47 | 6.54 | 6.50 | 6.47 | 6.31 | 6.46 |

*Historical data

This is supported by the developments in housing building permits. In February, the permits dropped by just 7 percent from the prior month. All things considered, this is not too bad. The February total was just 1.4 percent below the year-earlier figure. Permits for single family homes were down 26 percent in February. However multi-family unit permits gained 34 percent.

The sharpest drop in the forecast by KEDI this month is for mobile homes. We expect now that in the year 1980, mobile home shipments will be 251 million units and in 1981, 280, compared with the last forecast of 282 and 310 million, respectively. Recuperation of the mobile home industry is not expected to begin any sooner than in 1982.

The median sales price of a new single-family home went up by $2,700 between December and January to $61,400. Builders still had about an 8 month supply of unsold new homes on hand.

The forecast here is that such homes will cost $70,000 by the end of this year. That is unchanged from the prior issue. It represents an 11 percent gain over the December, 1979, level. This is a more "positive" view than the Realtors' Association outlook. They predict that such prices will go up by 13 percent this year.

## 1.5 FEDERAL AND STATE AND LOCAL BUDGETS
(Table 05. on page 20)

The effect of President Carter's fiscal package on the projections here is as follows: decrease in the Federal deficit for calendar 1980 to 13.8 billion from 21.1 billion and a decrease in calendar 1981 from 22.3 to 10.9 billion.

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TABLE 04. HOUSING
(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1978* | 1979 | | | | 1979 |
|---|---|---|---|---|---|---|---|
| | | | 1* | 2* | 3* | 4 | |
| Single-Family Housing Starts | mil. units | 1.433 | 1.119 | 1.262 | 1.236 | 1.059 | 1.169 |
| Multifamily Housing Starts | mil. units | .567 | .496 | .575 | .589 | .545 | .551 |
| Mobile Homes Shipments | thous units | 276 | 284 | 274 | 276 | 296 | 283 |
| Housing Permits Issued | mil. units | 1.680 | 1.499 | 1.591 | 1.652 | 1.398 | 1.535 |
| Construction Costs-Commerc. | 1972=100 | 164.3 | 172.7 | 178.3 | 182.2 | 187.4 | 180.2 |
| Construction Costs-Resident. | 1972=100 | 161.8 | 171.8 | 173.9 | 180.0 | 189.3 | 178.8 |

| Indicator | Unit | 1979 | 1980 | | | | 1980 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Single-Family Housing Starts | mil. units | 1.169 | .794 | .846 | .873 | .752 | .804 |
| Multifamily Housing Starts | mil. units | .551 | .501 | .524 | .501 | .489 | .504 |
| Mobile Homes Shipments | thous units | 283 | 260 | 251 | 272 | 257 | 260 |
| Housing Permits Issued | mil. units | 1.535 | 1.286 | 1.204 | 1.201 | 1.007 | 1.150 |
| Construction Costs-Commerc. | 1972=100 | 180.2 | 193.5 | 197.8 | 201.4 | 209.0 | 200.4 |
| Construction Costs-Resident. | 1972=100 | 178.8 | 192.2 | 196.7 | 201.3 | 208.4 | 199.7 |

| Indicator | Unit | 1980 | 1981 | | | | 1981 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Single-Family Housing Starts | mil. units | .804 | .875 | .926 | .974 | .908 | .921 |
| Multifamily Housing Starts | mil. units | .504 | .493 | .521 | .589 | .592 | .549 |
| Mobile Homes Shipments | thous units | 260 | 243 | 271 | 302 | 314 | 283 |
| Housing Permits Issued | mil. units | 1.150 | 1.086 | 1.153 | 1.186 | 1.202 | 1.157 |
| Construction Costs-Commerc. | 1972=100 | 200.4 | 215.7 | 222.6 | 228.0 | 235.4 | 226.1 |
| Construction Costs-Resident. | 1972=100 | 199.7 | 216.4 | 222.6 | 229.0 | 235.8 | 226.0 |

*Historical data

Unless very dramatic cuts in the fiscal 1981 budget that starts October 1, 1980, are made, the President's goal of a balanced budget seems to be not very realistic. The Administration has projected the 1981 budget deficit at $15.78 billion. That was based on the Administration's unrealistic prediction of 11.8 percent increases in the Consumer Price Index in 1980 and 9.2 percent in 1981. Taking into account more realistic inflation rates of 15.0 percent in 1980 and 12.9 percent in 1981 and their impact on the resulting gains in veteran's benefits, social security, and Medicare payments, only, a fiscal deficit of $25 billion before the planned cuts is expected. The Congressional Budget Office forecasts a $20 billion deficit for fiscal 1981 as outlays are seen as rising faster than revenues. Assuming, that the Administration will succeed to cut the budget by $15 billion, it will remain still the deficit of approximately $10 billion. Many of the budget cuts and tax proposals studied now in the Senate and House Committees are controversial and will require much debate and negotiating before any agreement is reached. The fiscal effect seems likely to be not as large as proposed be Carter.

The situation with the fiscal 1980 budget is one that would not lead people to say "Everything's coming up roses." Recently released data for February show that the U.S. budget deficit widened to $39.53 billion: approximately the same amount as projected for the entire year by the Administration.

The Congressional Budget Office projects that the fiscal deficit in 1980 will be in the $45-47 billion range. That corresponds with the forecast by this Institute.

In the forecast, the surpluses of State and Local Governments budgets have been revised downward, due to the anticipated reduction of receipts from revenue sharing and the smaller tax returns.

## 1.6 INCOME
(Table 06. on page 21)

Forecast data for personal income and components have been changed slightly due to the routine adjustments orginating from recently released statistics. Personal income rose only marginally, 0.3 percent in February, seasonally adjusted, from the Janaury level. The increase in personal consumption spending also slowed: it was up just 0.5 percent.

The forecast for Compensation of Employees was decreased slightly for 1980-82. This was needed due to the higher than previously anticipated unemployment forecast for 1980-81 which, as was mentioned, reflects the Administration's budget revision. For 1980-82, transfer payments have been increased.

Personal Savings projections for 1980-81 were raised slightly because of the smaller anticipated increase in personal expenditures in current dollars. Projections of Corporate After Tax Profits in 1980 have been lowered. The cause here is mainly in the expected further deterioration of profits of banking and intermediarie's industry, and in construction, automobiles, and retail trade.

## 1.7 MONEY AND CREDIT
(Table 07. on page 24)

Table 07. contains the revised data for the money supply, M1-A and M2,: the new indicators used by the Federal Reserve System.

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TABLE 05. FEDERAL AND STATE
AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1978* | 1979 | | | | 1979 |
|---|---|---|---|---|---|---|---|
| | | | 1* | 2* | 3* | 4 | |
| Federal Govt.: | | | | | | | |
| Income Taxes | bil.$ | 189.4 | 207.4 | 220.6 | 229.6 | 242.3 | 225.0 |
| Corporate Profit Tax Accruals | bil.$ | 72.0 | 77.2 | 74.9 | 79.4 | 82.4 | 78.5 |
| Surpl./Deficit | bil.$ | -27.7 | -11.7 | -7.0 | -11.3 | -14.7 | -11.2 |
| State and Local Governments: | | | | | | | |
| Income Taxes | bil.$ | 37.5 | 40.8 | 42.9 | 38.9 | 40.0 | 40.7 |
| Corporate Profit Tax Accruals | bil.$ | 12.5 | 14.1 | 13.7 | 14.7 | 15.0 | 14.4 |
| Surpl./Deficit | bil.$ | 27.4 | 27.6 | 19.7 | 25.3 | 26.0 | 24.7 |

| Indicator | Unit | 1979 | 1980 | | | | 1980 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Federal Govt.: | | | | | | | |
| Income Taxes | bil.$ | 225.0 | 246.3 | 256.8 | 264.3 | 267.2 | 258.7 |
| Corporate Profit Tax Accruals | bil.$ | 78.5 | 82.6 | 85.8 | 92.3 | 94.5 | 88.8 |
| Surpl./Deficit | bil.$ | -11.2 | -17.6 | -12.2 | -10.6 | -14.8 | -13.8 |
| State and Local Governments: | | | | | | | |
| Income Taxes | bil.$ | 40.7 | 41.9 | 43.5 | 45.9 | 48.7 | 45.0 |
| Corporate Profit Tax Accruals | bil.$ | 14.4 | 14.9 | 16.0 | 18.0 | 19.5 | 17.1 |
| Surpl./Deficit | bil.$ | 24.7 | 15.6 | 17.0 | 18.0 | 18.9 | 17.4 |

| Indicator | Unit | 1980 | 1981 | | | | 1981 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Federal Govt.: | | | | | | | |
| Income Taxes | bil.$ | 258.7 | 280.4 | 286.7 | 289.4 | 295.1 | 287.9 |
| Corporate Profit Tax Accruals | bil.$ | 88.8 | 99.3 | 107.8 | 116.9 | 126.3 | 112.6 |
| Surpl./Deficit | bil.$ | -13.8 | -10.2 | -10.4 | -11.2 | -11.9 | -10.9 |
| State and Local Governments: | | | | | | | |
| Income Taxes | bil.$ | 45.0 | 49.1 | 53.7 | 58.9 | 62.3 | 56.0 |
| Corporate Profit Tax Accruals | bil.$ | 17.1 | 21.9 | 24.7 | 26.5 | 27.7 | 25.2 |
| Surpl./Deficit | bil.$ | 17.4 | 18.5 | 20.2 | 22.5 | 24.9 | 21.5 |

*Historical data

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TABLE 06. INCOME
(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1978* | 1979 | | | | 1979 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Personal Income | bil.$ | 1717.4 | 1852.5 | 1892.5 | 1946.6 | 2005.0 | 1924.2 |
| Personal Dispos. Income | bil.$ | 1458.4 | 1572.2 | 1601.7 | 1639.4 | 1683.1 | 1624.1 |
| Compensation of Employees | bil.$ | 1304.5 | 1411.2 | 1440.6 | 1472.8 | 1513.2 | 1459.5 |
| Corp. Profits After Tax | bil.$ | 121.5 | 142.0 | 139.3 | 148.3 | 148.8 | 144.6 |
| Personal Saving | bil.$ | 72.0 | 79.2 | 85.9 | 70.3 | 59.7 | 73.8 |
| Average Weekly Earnings | $ | 203.3 | 212.4 | 217.8 | 220.6 | 224.1 | 218.7 |

| Indicator | Unit | 1979 | 1980 | | | | 1980 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Personal Income | bil.$ | 1924.2 | 2041.2 | 2090.3 | 2160.3 | 2236.4 | 2132.1 |
| Personal Dispos. Income | bil.$ | 1624.1 | 1688.5 | 1757.4 | 1833.6 | 1870.0 | 1787.4 |
| Compensation of Employees | bil.$ | 1459.5 | 1516.7 | 1574.3 | 1571.2 | 1743.6 | 1601.2 |
| Corp. Profits After Tax | bil.$ | 144.6 | 150.1 | 152.8 | 157.9 | 168.4 | 157.3 |
| Personal Saving | bil.$ | 73.8 | 61.3 | 68.9 | 72.4 | 78.7 | 70.3 |
| Average Weekly Earnings | $ | 218.7 | 227.3 | 230.4 | 235.2 | 241.3 | 233.6 |

| Indicator | Unit | 1980 | 1981 | | | | 1981 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Personal Income | bil.$ | 2132.1 | 2294.8 | 2350.4 | 2410.7 | 2565.3 | 2380.7 |
| Personal Dispos. Income | bil.$ | 1787.7 | 1930.3 | 1937.3 | 2058.1 | 2114.3 | 2025.0 |
| Compensation of Employees | bil.$ | 1611.2 | 1810.4 | 1872.6 | 1932.7 | 2015.4 | 1907.8 |
| Corp. Profits After Tax | bil.$ | 157.8 | 176.5 | 182.9 | 188.4 | 190.5 | 184.6 |
| Personal Saving | bil.$ | 70.3 | 83.9 | 88.7 | 93.1 | 99.2 | 91.2 |
| Average Weekly Earnings | $ | 233.6 | 247.6 | 252.8 | 258.7 | 262.4 | 256.1 |

*Historical data

This forecast incorporates the Administration's anti-inflation measures adopted March 14; namely, the credit restrictions, extensions of reserve requirements on nonmember banks of the Federal Reserve System, increases in interest rates, and the curtailing of some types of consumer credit.

The new forecast shows the 12 percent gain in the money supply, M1-A, in 1980 when compared with the prior year and a further increase of 11.2 percent in 1981. For M2 , the gains are 14.3 and 12.6 percent, respectively. In both categories, that is fairly steep growth which does not contribute to any substantial relief from inflationary pressures.

In this issue, the data for banks' commercial and industrial loans show slower growing trends when compared with former forecasts.

Calculations show that the economy can sustain the "shock treatment" of the Administration and still remain without recession. KEDI considers those measures to be adequate for the time being. A simulation with stiffer credit controls, i.e., the further rise of the overall discount rate to 15 percent with the prime rate moving above 21 percent toward 25 percent and corresponding gains in other interest rates would drive the economy into a recession straightaway. Indications are that, at the present time, these credit restraints have been maximum that can be imposed without risking a serious unnecessary downturn.

This Institute does not agree with the view of Mr. Volcker, Chairman of the Board of Governors of the Federal Reserve System. He warned that he would tighten monetary policy more if the budget-trimming proposals are not enough to put a dent in inflationary pressures. He told the Senate Banking Committee that "The less fiscal restrain you get, the more the burden falls back on us." He also said "The quicker we get through this period, the better. The more help we have from

other instruments of policy, the better." (Wall Street Journal, March 19, 1980)

In late March, an offical of Merrill Lynch Government Securities Inc. estimated that the money supply will grow in April by an annual rate of 12 percent due to strong loan demard and the large income tax refunds and that further tightening would be needed.

This Institute expects that the Board of Governors will continue its wait-and-see position and not make further efforts to tighten credit more.

The KEDI position is that bringing inflation down to any substainable degree will be a long-term process. One cannot expect that it could be done in a short period of time. The causes of inflation being experienced in this country are not only located in the monetary and fiscal side of the economy. The causes are mainly in the STRUCTURE of the economy. Ever increasing prices of energy, declining productivity of labor, excessive wage requirements and the weak international value of the dollar belong to the contributors of the inflation spiral in the U.S.A. There are also causes outside of this country. The reader is well aware of the world oil situation and what the oil "have's" are doing to the oil "have-nots."

## 8.0 INTEREST RATES, YIELDS AND SECURITIES PRICES

(Table 08. on page 26)

The KEDI forecast concerning interest rates shows a high, steady level in 1980 and in the early part of 1981. There will be a more significant downturn toward the end of 1981.

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TABLE 07. MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

| Indicator | Unit | 1978* | 1979 | | | | 1979 |
|---|---|---|---|---|---|---|---|
| | | | 1* | 2* | 3* | 4 | |
| Currency+Demand Deposits, M-1A | bil.$ | 352.8 | 358.4 | 361.7 | 365.4 | 369.7 | 363.8 |
| Time Deposits, Adjusted, M-2 | bil.$ | 1133.6 | 1422.3 | 1459.6 | 1488.5 | 1515.2 | 1471.4 |
| Consumer Instal. Credit | bil.$ | 275.6 | 278.3 | 284.8 | 290.6 | 298.2 | 298.2 |
| Commerc.and Ind. Loans at Banks | bil.$ | 230.9 | 243.5 | 255.2 | 259.3 | 265.7 | 265.7 |
| Negotiable Cert.of Deposits | bil.$ | 96.6 | 99.0 | 103.9 | 111.9 | 115.6 | 115.6 |
| Mortgages at S&L Assns. | bil.$ | 432.9 | 441.4 | 447.5 | 450.5 | 454.2 | 454.2 |
| Indicator | Unit | 1979 | 1980 | | | | 1980 |
| | | | 1 | 2 | 3 | 4 | |
| Currency+Demand Deposits, M-1A | bil.$ | 363.8 | 394.0 | 403.8 | 415.9 | 421.7 | 408.9 |
| Time Deposits, Adjusted, M-2 | bil.$ | 1471.4 | 1581.2 | 1637.3 | 1708.5 | 1740.2 | 1666.8 |
| Consumer Instal. Credit | bil.$ | 298.2 | 306.2 | 310.2 | 312.6 | 318.7 | 318.7 |
| Commerc.and Ind. Loans at Banks | bil.$ | 265.7 | 275.9 | 277.3 | 279.1 | 282.2 | 282.2 |
| Negotiable Cert.of Deposits | bil.$ | 115.6 | 120.1 | 129.8 | 138.4 | 140.4 | 140.4 |
| Mortgages at S&L Assns. | bil.$ | 454.2 | 452.9 | 454.5 | 459.7 | 465.8 | 465.8 |
| Indicator | Unit | 1980 | 1981 | | | | 1981 |
| | | | 1 | 2 | 3 | 4 | |
| Currency+Demand Deposits, M-2 | bil.$ | 408.9 | 437.8 | 448.9 | 463.6 | 478.7 | 452.3 |
| Time Deposits, Adjusted | bil.$ | 1666.8 | 1814.7 | 1886.2 | 1943.1 | 1995.6 | 1908.9 |
| Consumer Instal. Credit | bil.$ | 318.7 | 326.5 | 330.4 | 339.5 | 350.7 | 350.7 |
| Commerc.and Ind. Loans at Banks | bil.$ | 282.2 | 280.9 | 290.6 | 299.5 | 311.4 | 311.4 |
| Negotiable Cert.of Deposits | bil.$ | 140.4 | 145.6 | 157.8 | 162.6 | 170.4 | 170.4 |
| Mortgages at S&L Assn. | bil.$ | 465.8 | 470.3 | 476.7 | 487.4 | 492.5 | 492.5 |

Historical data

It is assumed, that in 1981 the new Administration will continue with the tight credit policy and high interest rates to assist in curbing the inflation rate gains.

A look at the international situation shows that no stimulus from the outside to aid in the decline of interest rates can be expected. The inflation rate in most of the world will not abate soon. The KEDI forecast of the inflation rates in 1981 as compared with 1980 is as follows: Japan: +11%, Great Britain: 17%, Canada, 12%, France 10%, Italy 11%, and Germany 8%. Consequently, these and other countries will have to adopt more rigorous anti-inflation policies, and their interest rates will be under constant upward pressures. Thus the gap between the interest rates in the U.S. and in other countries will narrow leaving no room for any significant drop in this country.

The projection of this Institute for the stock market shows slight decreases throughout the second quarter of this year with stabilizing in the second half and a gradual rebound during 1981.

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TABLE 08. INTEREST RATES, YIELDS AND SECURITIES PRICES

| Indicator | Unit | 1978* | 1979 | | | | 1979 |
|---|---|---|---|---|---|---|---|
| | | | 1* | 2* | 3* | 4 | |
| 3 mo Treas.Bills Rate(new issues) | % | 7.22 | 9.96 | 9.61 | 9.89 | 11.96 | 10.19 |
| Prime Rate | % | 9.06 | 11.75 | 11.76 | 12.31 | 15.23 | 12.76 |
| Mortgage Rate, New Homes | % | 9.30 | 9.97 | 10.05 | 10.17 | 12.21 | 10.60 |
| Aaa Bonds Rate | % | 8.73 | 9.29 | 9.54 | 9.72 | 10.58 | 9.78 |
| Long Term Govt. Bonds Yield | % | 8.48 | 9.03 | 9.19 | 9.36 | 10.65 | 9.56 |
| Standard & Poor's 500 Average | 1941-43=100 | 96.11 | 99.35 | 100.13 | 106.54 | 103.52 | 102.39 |

| Indicator | Unit | 1979 | 1980 | | | | 1980 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| 3 mo Treas.Bills Rate(new issues) | % | 10.14 | 15.07 | 15.93 | 15.71 | 14.95 | 15.42 |
| Prime Rate | % | 12.76 | 17.13 | 18.53 | 18.66 | 18.52 | 18.22 |
| Mortgage Rate, New Homes | % | 10.60 | 12.89 | 13.52 | 13.31 | 13.09 | 13.20 |
| Aaa Bonds Rate | % | 9.78 | 11.72 | 13.65 | 13.84 | 13.67 | 13.22 |
| Long Term Govt. Bonds Yield | % | 9.56 | 12.69 | 13.04 | 12.67 | 12.43 | 12.71 |
| Standard & Poor's 500 Average | 1941-43=100 | 102.39 | 108.23 | 100.38 | 199.81 | 100.24 | 102.17 |

| Indicator | Unit | 1980 | 1981 | | | | 1981 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| 3 mo Treas.Bills Rate(new issues) | % | 15.42 | 14.06 | 13.85 | 13.56 | 13.07 | 13.64 |
| Prime Rate | % | 18.22 | 17.85 | 17.84 | 17.03 | 16.50 | 17.21 |
| Mortgage Rate, New Homes | % | 13.20 | 12.97 | 12.74 | 12.27 | 11.76 | 12.43 |
| Aaa Bonds Rate | % | 13.22 | 12.96 | 12.58 | 12.04 | 11.75 | 12.33 |
| Long Term Govt. Bonds Yield | % | 12.71 | 12.52 | 12.48 | 12.40 | 12.06 | 12.37 |
| Standard & Poor's 500 Average | 1941-43=100 | 102.17 | 100.76 | 101.53 | 103.48 | 106.21 | 102.99 |

*Historical data

## 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the car sales for the year 1979 have been selected for comparison. Almost all forecasters underestimated the actual development. Actual data are taken from the Survey of Current Business, Vol. 60, No. 1, blue pages S-36 (monthly, U.S. Department of Commerce, Washington, D.C.) Forecast data are from Business Forecasts 1979, published by the Federal Reserve Bank of Richmond Va., February 1979, Library of Congress Catalogue Card No: 75-189493. Table below shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

CAR SALES

(1979, mil. units)

Actual: 10.8

| Forecaster | Page in Business Forecasts 1979 | Forecast | % of Accuracy |
|---|---|---|---|
| General Electric | 23 | 10.4 | -3.4 |
| Philadelphia National Bank | 24 | 10.8 | .0 |
| University of California | 25 | 10.2 | -5.6 |
| Chemical Bank | 28 | 10.6 | -1.9 |
| KEDI | 29 | 10.9 | +.9 |

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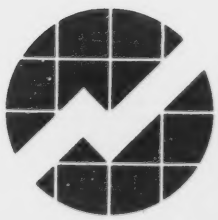
KEDI ECONOMIC SURVEY

APRIL ISSUE

April 30, 1980



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# KEDI ECONOMIC SURVEY

## APRIL ISSUE

April 30, 1980

President: Vladimir J. Simunek

This monthly report was prepared by the staff of the Kent Economic and Development Institute, the organization of the Kent State University Foundation, Inc. Any comments, suggestions or inquiries should be directed to: KEDI ECONOMIC SURVEY, Kent Economic and Development Institute, KSU Foundation, Inc., Kent State University Campus - Student Center, Kent, Ohio 44242, U.S.A. This report or any of its parts cannot be reproduced without the written consent of the Kent Economic and Development Institute.

Editor: Diane L. Lewis

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Housing starts dropped sharply in March. KEDI expects starts to total around 1.25 million this year. It is assumed that the Administration will help the housing industry.

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Although the President, House, and Senate are aiming at a balanced budget or surpluses in fiscal 1981, KEDI expects a deficit.

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Personal income grew at a moderate pace last month. The forecast of this Institute is adjusted to reflect the current slowdown.

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There are some indications of relaxing of credit and money policies by the Feds. Moderate money supply growth is anticipated here.

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A period of gradual declines is starting to take place. International economic conditions will prevent the decline from being too great.

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In this issue, the first quarter 1980 personal income has been selected for comparison. KEDI forecast has been on target. Other forecasters underestimated the actual development.

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# 1.0 OVERVIEW AND ASSUMPTIONS

## 1.01 OVERVIEW

Uncertainty:

Uncertainty comes in because of the importance of the monetary, credit, and fiscal policies of the Administration. If the current policies are continued, the economic picture will certainly differ -for the worst- from what the picture might show otherwise. The media is accenting the negative. Perhaps there is a desire for a self-fulfilling prophecy: A recession is discussed, so find all evidence to support its existence or forthcoming appearance. The attention the stories get may also be influential on the Administration to consider loosening their tight economic reins.

Many economists and politicians feel that the United States is already in a recession. President Carter recently said that a recession "probably" exists, but that his main economic concern was still inflation. He was quoted on April 18 as follows: "...I also know that we cannot reduce interest rates and we can not make jobs secure until we get the inflation rate down." He indicated that he would "try" (what specifically was meant here was not clear) to help those hit the most by current economic conditions within constraints of the budget. One of his promises was for a new emergency credit bill for farmers. Also being explored was ways to provide more mortgage subsidies to those homeowners with middle or low income levels in need of help.

(Broadly defined, most homeowners probably feel they want to yell "HELP!" as it gets harder to meet that mortgage payment when limited income has to stretch to pay other rising costs.)

The Chairman of the President's Council of Economic Advisers said, in late April, that the U.S. has entered a recession. He expressed the view that it will be mild. Mr. Volcker of the Federal Reserve Board repeatedly stressed that they intend to keep on restraining the growth of money and credit. He also said that there is a "good chance" that the recession has arrived. He did say that interest rates are expected to go down as demand for credit lags in the recession.

G. William Miller, Tresury Secretary, said in late April that the recession would last for two or three quarters. Alfred Kahn expressed worry that the recession will be a severe one.

The media picks up on the more gloomy expressions of what might be coming. One article in the Wall Street Journal made a headline of "...Carter Aides Fear Deeper Recession..." Yet, inside that article was the news that there was small growth in the first quarter.

There are opinions expressed that are not of the panic or near disaster variety. For instance, earlier in the month Alfred Kahn speculated that a recession might be avoided if the increases in wages and prices can be moderated. Although the Labor Secretary, Ray Marshall, said that the signs point to a recession, he could not say that one had begun, now would he

venture a guess as to when it might start.

The textbook definition of a recession requires that there be two quarters of economic decline in the GNP. Too many economists and economic writers are forgetting that proper definition.

During the first quarter there was real growth - nothing to shout about unless one is faced with those "convinced" we are in a recession - THE FIRST QUARTER OF THIS YEAR DID SHOW GROWTH. If a recession is to come, then, it will not be seen until the early part of the fourth quarter when the data from the second and third quarters are in and if they show two declines when each is compared to the prior quarter.

KEDI maintains its forecast for what is essentially a flat year providing the Administration relaxes its credit and interest rates policy in this quarter and takes steps to ease restraints along with other anti-recession steps.

Such a view is not totally without support in high places. One member of the Council of Economic Advisers, Lyle Gramley, indicated in mid-April that he favors slowing the growth of money and credit, but that it is necessary to see that interest rates come down shortly.

More specifically, calculations of this Institute show that if the Administration does not relax its restrictive policy in coming months, i.e. in early summer, the U.S. economy will fall into a deep and long recession, extended in the year 1981. If that happens, then the inflation will "turn the corner" and we

will witness the slowdown in price increases, but the price the country will pay for that, will be too high. The surgery will be successful and the patient dead.

This Institute's founder believes that the policy of gradual abating of inflation is best for the economy rather than any kind of shock treatment. It may be a surprise (then again, it may not be) to learn that agreement on this is found in the views of Milton Friedman: he also is for a gradualist policy. A delicate touch pressing ever so lightly but steadily on the money supply may be frustrating but it will avoid the pain that a deep recession can cause which would occur if the money supply took a sharp blow right at the money belt. Again, as was outlined in the March 31 issue, the causes of inflation are not to be found in monetary policy alone but more basically in the structure of the economy in the U.S. and in other nations tied together through trade links to us and each other.

There are clear signs of slowdown in the economy. Industries connected to housing and automobile production are beginning to be affected. This is also true of lumber, furniture, rubber, and plastics.

Calculations here show, that if the Administration waits to make anti-recession moves, that will be too late - like running out to buy a smoke alarm while a fire smolders. If no action is taken until then, there will be a severe recession extending through 1981.

In the new forecast of KEDI, the second quarter will show a downturn but, the third quarter will be essentially flat and the fourth quarter will show some upturn. For 1980, as a whole as compared to the prior year, 0.4 per cent growth is likely which is essentially flat.

There are numerous reasons why a downturn in general is not expected. First, agriculture will remain strong. The amount of acres planted this year is about the same as in 1979. Second, factory orders went down very slightly in March. Third, new orders showed a gain that month. Fourth, there is no indication that business will slow down on capital spending to any significant degree. And fifth, pressure from the housing and auto and lumber industries will likely help lead the Administration to loosen restraints. If not, there will be a severe recession.

KEDI forecast is highlighted on the following page.

## KEDI FORECAST HIGHLIGHTS

Table 1.0

| Indicator | Unit | 1978 | 1979 | 1980 | 1985 |
|---|---|---|---|---|---|
| Gross National Product | bil. const. 72 $ | 1399.2 | 1431.7 | 1440.9 | 1745.7 |
| Index of Industrial Production | 1967 =100 | 145.2 | 152.2 | 150.6 | 175.7 |
| Capacity Utilization | % | 84.3 | 85.7 | 83.7 | 87.0 |
| Unemployment Rate | % | 6.0 | 5.9 | 6.9 | 6.0 |
| Private Housing Starts | mil. units | 2.020 | 1.721 | 1.189 | 1.936 |
| Car Sales | mil. units | 11.3 | 10.8 | 9.4 | 13.0 |
| Implicit GNP Price Deflator | 1972 =100 | 152.1 | 165.5 | 182.8 | 280.3 |
| Consumer Price Index | 1967 =100 | 195.3 | 217.5 | 247.3 | 389.6 |
| Producer Price Index | 1967 =100 | 209.3 | 236.2 | 272.1 | 400.3 |
| Federal Deficit | bil.$ | -27.7 | -11.2 | -13.7 | -19.1 |
| Personal Income | bil.$ | 1717.4 | 1924.2 | 2127.9 | 3330.6 |
| Prime Rate | % | 9.06 | 12.76 | 17.85 | 10.04 |
| Mortgage Rate | % | 9.30 | 10.60 | 13.16 | 9.92 |
| Currency plus Demand Deposits | bil.$ | 326.6 | 363.8 | 385.4 | 621.7 |
| Commercial and Industrial Loans | bil.$ | 230.9 | 265.7 | 289.9 | 492.4 |

## KEDI FORECAST HIGHLIGHTS

Table 1.0

| Indicator | Unit | 1978 | 1979 | 1980 | 1985 |
|---|---|---|---|---|---|
| Gross National Product | bil. const. 72 $ | 1399.2 | 1431.7 | 1440.9 | 1745.7 |
| Index of Industrial Production | 1967 =100 | 145.2 | 152.2 | 150.6 | 175.7 |
| Capacity Utilization | % | 84.3 | 85.7 | 83.7 | 87.0 |
| Unemployment Rate | % | 6.0 | 5.9 | 6.9 | 6.0 |
| Private Housing Starts | mil. units | 2.020 | 1.721 | 1.189 | 1.936 |
| Car Sales | mil. units | 11.3 | 10.8 | 9.4 | 13.0 |
| Implicit GNP Price Deflator | 1972 =100 | 152.1 | 165.5 | 182.8 | 280.3 |
| Consumer Price Index | 1967 =100 | 195.3 | 217.5 | 247.3 | 389.6 |
| Producer Price Index | 1967 =100 | 209.3 | 236.2 | 272.1 | 400.3 |
| Federal Deficit | bil.$ | -27.7 | -11.2 | -13.7 | -19.1 |
| Personal Income | bil.$ | 1717.4 | 1924.2 | 2127.9 | 3330.6 |
| Prime Rate | % | 9.06 | 12.76 | 17.85 | 10.04 |
| Mortgage Rate | % | 9.30 | 10.60 | 13.16 | 9.92 |
| Currency plus Demand Deposits | bil.$ | 326.6 | 363.8 | 385.4 | 621.7 |
| Commercial and Industrial Loans | bil.$ | 230.9 | 265.7 | 289.9 | 492.4 |

1.02 ASSUMPTIONS

The following assumptions are parts of this forecast. Compared with assumptions incorporated into the February, 1980, forecasts, the changes concern the Assumption No. 3.

1. In 1980, approximately 95% of the demand for oil in this country will be met. In 1981 all basic U.S. demands for oil should be met. The weighted price of oil in 1980 will go up to the $34 range. In 1981, it is expected the price will go up to $40 and in 1982, to $46 per barrel.

2. It is still too current to develop a longer-lasting assumption for the impact of the Iranian-Mid East crisis. Compared with the December 1979 forecast, slightly higher price increases of energy items and substantially higher defense orders have been considered.

3. We expect that the Administration and Federal Reserve will maintain a "wait-and-see" position after the March 14 fiscal and monetary measures. No more tightening in fiscal and monetary policies will occur. In Summer, the Administration and Federal Reserve will ease the conditions in housing and car markets, and for the economy in general.

4. It is assumed that in 1981 the new Administration will adopt a definite program in fighting the inflation by gradually reducing the excess demand. The Federal Reserve Board will, at long last, begin a policy of setting the limits to the monetary growth by long-term commitments, not just short-term as has been the

policy in the past. Price and wage controls must remain the last resort of stabilization policy. For 1982 and consecutive years, we assume that the Administration will pursue a more vigorous anti-inflation policy.

5. Our foreign trade with China will expand more rapidly starting this year, and will gain a substantial momentum in 1981 and following years.

6. In 1980, 1981, and 1982 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. Low harvest in the U.S.S.R. is expected in 1983. The U.S. 1983 harvest will be average, and the years 1984 and 1985 will bring the record crops. Compared with the previous forecast, the exports of grain have been reduced.

7. It is projected here that the rates of growth in 1979, 1980-1982 in the major industrial countries will be as follows for real GNP:

| | 1980 | 1981 | 1982 |
|---|---|---|---|
| West Germany | 3.1% | 2.9% | 3.0% |
| Italy | 2.1 | 2.0 | 2.6 |
| Japan | 2.0 | 2.0 | 2.3 |
| Great Britain | 1.7 | 1.6 | 1.9 |
| France | 2.0 | 2.1 | 2.2 |

## 1.1 REAL GROWTH

(Table 01. on page 13)

First, some good news is in order. The first quarter of this year showed a bit of growth in GP real GNP as the adjusted figure for that time period was 1.1 per cent higher than the figure for the previous quarter.

In agriculture, the overall picture shows that the number of acres planted will be about the same this year as last. Slightly more corn is being planted and soybeans are being planted at about the rate they were last year. The farmer is financially pressed, but tight profit margins seem to mean planting the same acres while trying to cut costs. The government bought up over 150 million bushels of wheat in order to aid prices for that commodity after the January Russian embargo. One bright spot on the export scene is agriculture which comprises the largest export item the U.S. has. It accounted for some $32 billion in the balance of trade last year. Despite embargo restrictions, the Department of Agriculture estimated 1980 exports at $37 billion for 1980.

New factory orders did fall in February, but only by 0.6 per cent. New orders for nondefense capital goods went up by an adjusted 5.7 per cent in March from the February level. This certainly indicates business plans for capital investment are not on the decline.

The backlog of orders last month increased somewhat: the adjusted March level exceeded the prior month by 0.7 per cent. In February, inventories were up by that same amount indicating a conservative policy here with no significant buildup.

The impetus toward a slowdown given by policies carried out by the government is now showing effects. During March, total auto sales fell by 16 per cent (figured on a daily basis to make February and March comparable). Sales of U.S. made autos went down by 19 per cent, and sales of imports declined by about 7 per cent when this March is compared to the year-earlier figure. Money and credit policies are not totally responsible. Detroit's lack of foresight in producing well made, smaller, fuel efficient cars also contributes!

In April, the auto industry production schedule for the second quarter was announced. It reflected a drop of about 20 per cent in planned production as compared to the second quarter of 1979.

Industrial production in March was down by 0.8 per cent from the prior month on a seasonally adjusted basis. The drop was mainly in consumer durable goods (household durable goods and, naturally, cars).

In March, factories were operating at a seasonally adjusted rate of 83 per cent of capacity. That was down from the February rate of 83.9 and the year earlier rate of 87.1 per cent.

Overall, retail sales were down by a seasonally adjusted 1.3 per cent in March. This followed the 1.6 per cent drop between January and February. The erosion of purchasing power that inflation has caused and the low rate of the savings level has led to added pressure for consumers. The chief economist for the Commerce Department said the conditions for retail sales will be worse in April and May. He also said that the recession is starting this quarter. This Institute does not agree with that as was discussed in the Overview section.

The University of Michigan surveyed consumers and found that they were more pessimistic about the economy in March than they had been at any time since the survey was started in 1946. (How much of this reflects the bad-news emphasis of the media is a question brought to mind.) There is no doubt, however, that the consumer is worse off with each dollar buying less and most paychecks not keeping up with inflation. In March, the survey found that 48 per cent of all families said they were worse off than a year earlier (up from 36 per cent a year earlier). Only 24 per cent said they were better off than they were a year ago. (One wonders how they got to be better off: promotions, shrewd investment, moonlighting, wife entering the paid labor force, selling the family silver or skulduggery.)

Roughly 70 per cent said they expect bad times financially during the next five years. About 60 per cent indicated they viewed house buying conditions as unfavorable. Regarding durable goods, 38 per cent viewed current buying conditions as unfavorable (as opposed to 25 per cent in March, 1979).

The slowdown has started to spread into industries such as lumber, rubber, and related industries. These conditions serve to underline the position of this Institute that unless the Administration lets up on its restraints within the next few months, we will have a severe recession.

The lumber industry in the Northwest is being hit with both barrels: the effects of the housing industry slump and a shortage of trees. In the Northwest, lack of foresight has led to a shortage of trees to cut. Recent plantings are at least a decade or two from being mature enough to harvest. Unemployment faces thousands of lumber jobs in that area. At the same time, there is some expansion in the South where there are now mature forests and less Forest Service owned land, but overall the industry is in decline.

Low auto production has led to cutbacks in the tire industry. Firestone Tire and Rubber Company, for example, has 3,600 employees on indefinite layoff and over 900 more will be laid off in April. Goodyear layoffs will total about 4,700 by the end of April.

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TABLE 01. REAL GROWTH
(Unless otherwise noted, quarterly data
are seasonally adjusted at annual rates)

| Indicator | Unit | 1978* | 1979 | | | | 1979 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Gross National Product, 1972$ | bil.$ | 1399.2 | 1430.6 | 1422.3 | 1433.3 | 1440.7 | 1431.7 |
| Index of Indust. Production | 1967=100 | 145.2 | 152.2 | 151.9 | 152.2 | 152.2 | 152.2 |
| Unemployment Rate | % | 6.0 | 5.8 | 5.7 | 5.8 | 5.9 | 5.9 |
| Capacity Utilization Rate | % | 84.3 | 86.7 | 85.9 | 85.4 | 84.6 | 85.7 |
| Private Housing Starts | mil. units | 2.020 | 1.616 | 1.837 | 1.825 | 1.604 | 1.721 |
| Car Sales | mil. units | 11.3 | 11.6 | 10.5 | 10.8 | 9.8 | 10.8 |

| Indicator | Unit | 1979 | 1980 | | | | 1980 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Gross National Product, 1972$ | bil.$ | 1431.7 | 1444.2 | 1439.0 | 1439.2 | 1441.0 | 1440.9 |
| Index of Indust. Production | 1967=100 | 152.2 | 152.1 | 150.1 | 149.5 | 150.7 | 150.6 |
| Unemployment Rate | % | 5.9 | 6.1 | 7.1 | 7.4 | 7.0 | 6.9 |
| Capacity Utilization Rate | % | 85.7 | 85.1 | 83.0 | 83.0 | 83.8 | 83.7 |
| Private Housing Starts | mil. units | 1.721 | 1.266 | 1.149 | 1.155 | 1.185 | 1.189 |
| Car sales | mil. units | 10.8 | 9.5 | 9.0 | 9.1 | 9.8 | 9.4 |

| Indicator | Unit | 1980 | 1981 | | | | 1981 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Gross National Product, 1972$ | bil.$ | 1440.8 | 1457.8 | 1470.4 | 1484.3 | 1490.2 | 1475.7 |
| Index of Indust. Production | 1967=100 | 150.6 | 154.2 | 155.3 | 157.4 | 158.3 | 156.3 |
| Unemployment Rate | % | 6.9 | 6.6 | 6.5 | 6.5 | 6.4 | 6.5 |
| Capacity Utilization Rate | % | 83.7 | 85.9 | 86.8 | 86.9 | 87.1 | 86.7 |
| Private Housing Starts | mil. units | 1.189 | 1.124 | 1.284 | 1.412 | 1.459 | 1.320 |
| Car sales | mil. units | 9.4 | 10.1 | 0.6 | 11.0 | 11.2 | 0.7 |

## 1.2 PRICES
(Table 02. on page 15)

In this issue, there has been slight revisions in the data for 1980 and 1981 concerning prices. KEDI expects that the inflation rate as measured by the Consumer Price Index, will be 14.4 instead of the 15.0 that was previously reported. For 1981, the rate is calculated at 12.3 instead of the 12.8 per cent reported in the March issue. The change in the projection for 1982 are three-tenths of one per cent: from 11.4 to 11.1. These are extremely small changes. Calculations show that the rate of inflation would decline significantly more, well below the double digit level, provided that the Administration would not relax the credit and fiscal policy. The slowdown in the increases of prices will begin the second half of the year. This will be mainly in the prices of nonferrous metals, machinery, building materials and durable consumer goods.

Food prices are expected to begin an upward climb in the Fall of this year. At that time the current "bargains" in such items as poultry and pork will end as supplies are curtailed. Also, about 60 per cent of the cost of food is added after it leaves the farm, the additional costs, such as those for transportation (rising with oil prices) will begin to filter more into the final consumer price. Overall, the Agriculture Department estimates food prices will go up about 9 per cent this year, after increasing 10.9 per cent in 1979.

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TABLE 02. PRICES AND NOMINAL GNP
(Unless otherwise noted, quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1978* | 1979 | | | | 1979 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Consumer Price Index, NSA | 1967=100 | 195.3 | 207.0 | 214.1 | 221.1 | 227.7 | 217.5 |
| Producer Price Index, NSA | 1967=100 | 209.3 | 227.2 | 231.7 | 238.8 | 247.2 | 236.2 |
| Implicit GNP Price Deflator | 1972=100 | 152.1 | 160.2 | 163.8 | 167.2 | 170.7 | 165.5 |
| Gross National Product | bil.$ | 2107.6 | 2292.1 | 2329.8 | 2396.5 | 2459.4 | 2369.5 |
| Personal Cons. Expenditures | bil.$ | 1340.1 | 1454.2 | 1475.9 | 1528.6 | 1581.2 | 1510.0 |
| Gross Private Dom. Investment | bil.$ | 345.6 | 373.8 | 395.4 | 392.3 | 387.5 | 387.3 |

| Indicator | Unit | 1979 | 1980 | | | | 1980 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Consumer Price Index, NSA | 1967=100 | 217.5 | 236.5 | 244.5 | 251.1 | 257.2 | 247.3 |
| Producer Price Index, NSA | 1967=100 | 236.2 | 258.7 | 267.1 | 276.2 | 286.3 | 272.1 |
| Implicit GNP Price Deflator | 1972=100 | 165.5 | 174.5 | 180.1 | 185.4 | 191.0 | 182.8 |
| Gross National Product | bil.$ | 2369.5 | 2520.3 | 2591.6 | 2668.3 | 2752.3 | 2633.1 |
| Personal Cons. Expenditures | bil.$ | 1510.0 | 1634.1 | 1628.3 | 1639.7 | 1700.1 | 1650.6 |
| Gross Private Dom. Investment | bil.$ | 387.3 | 388.8 | 402.3 | 418.5 | 432.4 | 410.5 |

| Indicator | Unit | 1980 | 1981 | | | | 1981 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Consumer Price Index, NSA | 1967=100 | 247.3 | 262.1 | 269.7 | 277.8 | 281.4 | 272.8 |
| Producer Price Index, NSA | 1967=100 | 272.1 | 292.7 | 300.3 | 311.5 | 318.7 | 305.8 |
| Implicit GNP Price Deflator | 1972=100 | 182.8 | 194.6 | 198.8 | 204.8 | 208.4 | 201.7 |
| Gross National Product | bil.$ | 2633.1 | 2836.9 | 2923.2 | 3039.8 | 3105.6 | 2976.4 |
| Personal Cons. Expenditures | bil.$ | 1650.6 | 1795.8 | 1839.9 | 1900.2 | 2001.2 | 1884.3 |
| Gross Private Dom. Investment | bil.$ | 410.5 | 446.7 | 467.1 | 493.5 | 519.4 | 481.7 |

Consumer prices went up by 1.4 per cent in March on a seasonally adjusted basis. That was the same rate of gain as was reached in the first two months of this year which would be 16.8 per cent at an annual rate (not compounded). During March, food prices went up an adjusted 1 per cent after remaining stable in February. Housing costs went up by 1.6, and transportation rose 1.7 per cent which was an improvement of sorts when compared to the 2.8 per cent jump in February. Gasoline prices went up an adjusted 3.9 per cent. To be an optimist, compare that rate to February: then the gain was 7.3 per cent from the January level.

## 1.3 EMPLOYMENT AND LABOR
(Table 03. on page 17)

As compared with the last forecast, in this issue the projection for the unemployment rate has been increased due mainly to the larger than expected rises in unemployment in the housing, construction and automobile industries. The general predicted trend remains unaffected. Unemployment will keep increasing throughout this year and stabilize in 1981.

The forecast of the average workweek of nonfarm factory workers has been also changed slightly. The reader will note small decreases in the remaining quarters of this year and the first quarter of 1981 and slight gains during the rest of that year when the two forecasts are compared.

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TABLE 03. EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1978* | 1979 | | | | 1979 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Population | mil. | 218.5 | 219.6 | 220.1 | 220.7 | 221.3 | 220.4 |
| Civilian Labor Force | mil. | 100.4 | 102.4 | 102.9 | 103.9 | 103.9 | 103.3 |
| Employed | mil. | 94.4 | 96.5 | 97.0 | 97.2 | 97.8 | 97.2 |
| -Agriculture | mil. | 3.3 | 3.3 | 3.3 | 3.4 | 3.3 | 3.3 |
| -Non Agriculture | mil. | 91.0 | 93.2 | 93.7 | 93.8 | 94.5 | 93.9 |
| Unemployment Rate | % | 6.0 | 5.77 | 5.73 | 5.81 | 5.88 | 5.80 |

| Indicator | Unit | 1979 | 1980 | | | | 1980 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Population | mil. | 220.4 | 221.9 | 222.6 | 223.4 | 224.1 | 223.0 |
| Civilian Labor Force | mil. | 103.3 | 104.2 | 104.8 | 105.6 | 106.4 | 105.3 |
| Employed | mil. | 97.2 | 97.8 | 97.3 | 97.8 | 98.9 | 98.0 |
| -Agriculture | mil. | 3.3 | 3.3 | 3.4 | 3.4 | 3.3 | 3.4 |
| -Non Agriculture | mil. | 93.9 | 94.5 | 93.9 | 94.4 | 95.6 | 94.6 |
| Unemployment Rate | % | 5.80 | 6.13 | 7.12 | 7.41 | 7.02 | 6.92 |

| Indicator | Unit | 1980 | 1981 | | | | 1981 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Population | mil. | 223.0 | 224.7 | 225.5 | 226.3 | 227.1 | 225.9 |
| Civilian Labor Force | mil. | 105.3 | 107.1 | 108.0 | 108.7 | 109.4 | 108.3 |
| Employed | mil. | 98.0 | 100.0 | 101.0 | 101.7 | 102.5 | 101.3 |
| -Agriculture | mil. | 3.4 | 3.3 | 3.3 | 3.4 | 3.3 | 3.3 |
| -Non Agriculture | mil. | 94.6 | 96.7 | 97.7 | 98.3 | 98.2 | 97.7 |
| Unemployment Rate | % | 6.92 | 6.61 | 6.51 | 6.48 | 6.35 | 6.49 |

| | | Previous Forecast: | Present Forecast: |
|---|---|---|---|
| | Quarters | Hours | Hours |
| 1980: | 1 | 40.1 | 40.1 |
| | 2 | 39.7 | 39.0 |
| | 3 | 38.8 | 38.2 |
| | 4 | 38.9 | 38.5 |
| 1981: | 1 | 39.1 | 38.9 |
| | 2 | 39.4 | 39.7 |
| | 3 | 39.7 | 40.1 |
| | 4 | 40.2 | 40.3 |

Total unemployment increased in March to an adjusted 6.2 per cent up slightly from the February rate of 6.0 per cent. The increase in the number of unemployed was almost entirely among adult men. The Labor Department also reported a rise in the number of discouraged workers: those that went to work but have given up trying after meeting too much defeat.

Total employment in March declined by 0.3 per cent to an adjusted 97.7 million. The average workweek for nonfarm workers in March was 35.4 hours. For factory workers the average was 39.8 as compared to the February level of 40.0 hours.

## 1.4 HOUSING
(Table 04. on page 20)

This Institute's forecast for housing unit starts for 1980 remains bleak but hardly like stops rather than starts. No improvement is expected until 1981. A more vigorous upturn is expected in 1982.

This calculation depends on Assumption 1. on page 7 that the Administration will take steps within the next few months that will help the housing industry. KEDI considers the statements by the Administration to bring the housing industry to a "standstill" to be highly detrimental for the economy and NOT NECESSARY.

The data for March housing reflects a drastic decline. Housing starts fell by 21.8 per cent from the prior month on an adjusted basis. When the March, 1980, adjusted total is compared to the year-earlier figure, a 42.2 per cent drop is seen.

Single family housing starts were off by 23.3 per cent in March from the February level. Multifamily starts fell by 19.9.

Jay Janis, the Chairman of the Federal Home Loan Bank Board, forecasts that starts would decline to a rate of roughly 900,000 in the latter part of this year shortly before the March figures were released. After considering them, he revised his estimate for the year of around 1.1 million starts to "one million or even lower."

Even more gloomy is the forecast made by Kenneth Rosen of the University of California. His forecast was cut down to 850,000 starts for 1980. The National Association of Home Builder's changed its forecast for the year from over 1.3 million to about 1.0 million.

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TABLE 04. HOUSING
(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1978* | 1979 | | | | 1979 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Single-Family Housing Starts | mil. units | 1.433 | 1.119 | 1.262 | 1.236 | 1.059 | 1.169 |
| Multifamily Housing Starts | mil. units | .567 | .496 | .575 | .589 | .545 | .551 |
| Mobile Homes Shipments | thous units | 276 | 284 | 274 | 276 | 296 | 283 |
| Housing Permits Issued | mil. units | 1.680 | 1.499 | 1.591 | 1.652 | 1.398 | 1.535 |
| Construction Costs-Commerc. | 1972= 100 | 164.3 | 172.7 | 178.3 | 182.2 | 187.4 | 180.2 |
| Construction Costs-Resident. | 1972= 100 | 161.8 | 171.8 | 173.9 | 180.0 | 189.3 | 178.8 |

| Indicator | Unit | 1979 | 1980 | | | | 1980 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Single-Family Housing Starts | mil. units | 1.169 | .800 | .738 | .734 | .750 | .756 |
| Multifamily Housing Starts | mil. units | .551 | .466 | .411 | .421 | .435 | .433 |
| Mobile Homes Shipments | thous units | 283 | 259 | 246 | 269 | 251 | 256 |
| Housing Permits Issued | mil. units | 1.535 | 1.279 | 1.005 | 1.106 | 1.987 | 1.094 |
| Construction Costs-Commerc. | 1972= 100 | 180.2 | 193.5 | 197.1 | 200.1 | 202.6 | 198.3 |
| Construction Costs-Resident. | 1972= 100 | 178.8 | 192.1 | 196.0 | 199.6 | 207.0 | 198.9 |

| Indicator | Unit | 1980 | 1981 | | | | 1981 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Single-Family Housing Starts | mil. units | .756 | .678 | .795 | .908 | .931 | .828 |
| Multifamily Housing Starts | mil. units | .433 | .446 | .489 | .504 | .528 | .492 |
| Mobile Homes Shipments | thous units | 256 | 235 | 252 | 281 | 296 | 266 |
| Housing Permits Issued | mil. units | 1.094 | 1.021 | 1.103 | 1.191 | 1.217 | 1.133 |
| Construction Costs-Commerc. | 1972= 100 | 198.3 | 211.5 | 217.7 | 222.4 | 230.5 | 220.5 |
| Construction Costs-Resident. | 1972= 100 | 198.9 | 211.3 | 217.2 | 220.8 | 228.7 | 219.5 |

The KEDI forecast is for 1.250 million units in 1980, provided that aid is extended to builders by the Administration. This is a downward revision from the estimate in the March issue of 1.38 million starts.

There are some indications that the housing industry does not actually look quite so bad as many forecasters indicate. Housing permits issued are low, but they are still on a level that corresponds to yielding a total of 1.2 or 1.3 million units this year. Big builders are being hurt but some still are relatively optimistic. Some of them have expressed the view that they know people want to buy houses, and it is a matter of cutting profit margins and reducing financing costs in order to make a purchase possible.

## 1.5 FEDERAL AND STATE AND LOCAL BUDGETS
(Table 05. on page 22)

At the present time, there are three proposals of the Federal Budget for fiscal 1981 (starting October 1, 1980): the President's revised budget released in March, the House version, and the Senate version. Although the third, or Senate version, differs more significantly when compared with the other two, all of them have a generally balanced budget in common. All hope that the United States will have a balanced budget. If so, it will be the first time in 12 years. The President's budget as it moves through the House already was changed some to a tentative House resolution

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TABLE 05. FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1978* | 1979 | | | | 1979 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Federal Govt.: | | | | | | | |
| Income Taxes | bil.$ | 189.4 | 207.4 | 220.6 | 229.6 | 242.3 | 225.0 |
| Corporate Profit Tax Accruals | bil.$ | 72.0 | 77.2 | 74.9 | 79.4 | 82.4 | 78.5 |
| Surpl./Deficit | bil.$ | -27.7 | -11.7 | -7.0 | -11.3 | -14.7 | -11.2 |
| State and Local Governments: | | | | | | | |
| Income Taxes | bil.$ | 37.5 | 40.8 | 42.9 | 38.9 | 40.3 | 40.7 |
| Corporate Profit Tax Accruals | bil.$ | 12.5 | 14.1 | 13.7 | 14.7 | 15.0 | 14.4 |
| Surpl./Deficit | bil.$ | 27.4 | 27.6 | 19.7 | 25.3 | 26.0 | 24.7 |

| Indicator | Unit | 1979 | 1980 | | | | 1980 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Federal Govt.: | | | | | | | |
| Income Taxes | bil.$ | 225.0 | 240.4 | 250.7 | 259.2 | 263.1 | 253.4 |
| Corporate Profit Tax Accruals | bil.$ | 78.5 | 83.4 | 84.1 | 90.5 | 94.2 | 88.1 |
| Surpl./Deficit | bil.$ | -11.2 | -17.1 | -12.1 | -10.9 | -14.8 | -13.7 |
| State and Local Governments: | | | | | | | |
| Income Taxes | bil.$ | 40.7 | 39.3 | 41.2 | 45.7 | 47.9 | 43.5 |
| Corporate Profit Tax Accruals | bil.$ | 14.4 | 15.0 | 15.6 | 17.4 | 19.0 | 16.8 |
| Surpl./Deficit | bil.$ | 24.7 | 15.2 | 16.1 | 17.5 | 18.0 | 16.7 |

| Indicator | Unit | 1980 | 1981 | | | | 1981 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Federal Govt.: | | | | | | | |
| Income Taxes | bil.$ | 253.4 | 279.2 | 286.4 | 289.9 | 296.7 | 288.1 |
| Corporate Profit Tax Accruals | bil.$ | 88.1 | 98.7 | 107.1 | 116.4 | 126.5 | 112.2 |
| Surpl./Deficit | bil.$ | -13.7 | -10.1 | -9.6 | -9.8 | -10.2 | -9.9 |
| State and Local Governments: | | | | | | | |
| Income Taxes | bil.$ | 43.5 | 48.1 | 51.4 | 56.7 | 61.9 | 54.5 |
| Corporate Profit Tax Accruals | bil.$ | 16.8 | 21.7 | 24.8 | 26.7 | 27.9 | 25.3 |
| Surpl./Deficit | bil.$ | 16.7 | 18.4 | 20.1 | 22.0 | 24.1 | 21.2 |

which indicated spending of about $612 billion and revenues of about $614 billion.

This Institute's calculations have shown that such a budget would contribute immensly to the slowdown of economic growth in 1981. The assumption here is that the combined results of the anticipated Administration's measures to counter any recession along with the income tax break in 1981 would lead to a Federal budget deficit of around $10 billion. The forecast in this issue concerning government budgets has not been changed significantly in the local, state or federal areas.

## 1.6 INCOME
(Table 06. on page 24)

In March, personal income grew at a moderate pace reflecting the general slowdown that is in process. Personal income in March grew at an adjusted rate of 0.8 per cent. Private wages and salaries rose by 0.7 per cent while factory payrolls were up just a bit: 0.4. Personal interest income gained by 1.5 per cent, however.

The data in this KEDI forecast has been revised downward just a bit when compared with the previous forecast. This was due mainly to higher unemployment than was forecast earlier and the slowdown in projected increases in wage rates.

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TABLE 06. INCOME
(Quarterly data are seasonally adjusted at annual rates)

| Indicator | Unit | 1978* | 1979 | | | | 1979 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Personal Income | bil.$ | 1717.4 | 1852.5 | 1892.5 | 1946.6 | 2005.0 | 1924.2 |
| Personal Dispos. Income | bil.$ | 1458.4 | 1572.2 | 1601.7 | 1639.4 | 1683.1 | 1624.1 |
| Compensation of Employees | bil.$ | 1304.5 | 1411.2 | 1440.6 | 1472.8 | 1513.2 | 1459.5 |
| Corp. Profits After Tax | bil.$ | 121.5 | 142.0 | 139.3 | 148.3 | 143.8 | 144.6 |
| Personal Saving | bil.$ | 72.0 | 79.2 | 85.9 | 70.3 | 57.5 | 73.2 |
| Average Weekly Earnings | $ | 203.3 | 212.4 | 217.8 | 220.6 | 224.1 | 218.7 |

| Indicator | Unit | 1979 | 1980 | | | | 1980 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Personal Income | bil.$ | 1924.2 | 2056.6 | 2098.7 | 2149.8 | 2206.5 | 2127.9 |
| Personal Dispos. Income | bil.$ | 1624.1 | 1730.5 | 1772.5 | 1803.7 | 1859.6 | 1791.6 |
| Compensation of Employees | bil.$ | 1459.5 | 1552.4 | 1583.3 | 1589.7 | 1700.2 | 1606.4 |
| Corp. Profits After Tax | bil.$ | 144.6 | 150.2 | 151.6 | 153.0 | 161.5 | 154.1 |
| Personal Saving | bil.$ | 73.2 | 58.9 | 61.4 | 68.7 | 71.3 | 65.1 |
| Average Weekly Earnings | $ | 218.7 | 226.4 | 228.2 | 230.4 | 236.4 | 230.4 |

| Indicator | Unit | 1980 | 1981 | | | | 1981 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Personal Income | bil.$ | 2127.9 | 2280.6 | 2341.3 | 2391.6 | 2460.7 | 2368.6 |
| Personal Dispos. Income | bil.$ | 1791.6 | 1911.4 | 1930.6 | 2060.3 | 2120.7 | 2005.8 |
| Compensation of Employees | bil.$ | 1606.4 | 1800.9 | 1863.4 | 1921.5 | 2007.3 | 1898.3 |
| Corp. Profits After Tax | bil.$ | 154.1 | 174.3 | 180.9 | 188.0 | 189.3 | 183.2 |
| Personal Saving | bil.$ | 65.1 | 0.6 | 6.2 | 0.3 | 7.1 | 88.6 |
| Average Weekly Earnings | $ | 230.4 | 240.5 | 250.4 | 255.6 | 258.9 | 251.3 |

The forecast here also shows slightly lower profits for corporations. Specifically this reflects the calculation for more of a decline in profits than the prior forecast here indicated in automobile, construction and the housing industries.

In March, spendable average weekly earnings for a worker with three dependents was up slightly to $201.62. But, the inflation adjusted earnings feli by 0.8 per cent. Average gross weekly pay of factory workers in March was at $280.59.

## 1.7 MONEY AND CREDIT
(Table 07. on page 27)

There are indications that the Federal Reserve may, at least temporarily, be easing credit and money instruments restraints. The credit-restraint program announced in mid-March was amended in early April to require lenders to give 30 days of notice before credit term changes can take effect. That at least gives some warning to the consumer as he or she gets "another day older and deeper in debt." The Board also allowed for more growth in consumer debt than it had in the original declaration.

The cost of borrowing for large firms dropped in late April. The federal funds rate went down below the 16 per cent range. It had been over 19 per cent a few weeks earlier.

The slowdown allows the Board to be less strict. However, caution is needed in order to keep up efforts to dent the inflation rate.

These measures have been taken because of the monetary and credit conditions which did improve quite a bit in recent weeks. For one thing, the growth of M1-A has slowed to an annual rate of just 4.1 per cent. That gives the Feds some time to relax the reins.

There are signs of consolidation in the bond market. This area now presents a brighter outlook for the rest of this year and for 1981. The Treasury Secretary predicted that the bond markets will shortly be restored to a good working condition. He noted that the federal government plans to raise only $2 billion in new funds in U.S. credit markets in fiscal 1981. That is a large drop from the $40 billion raised this way in the current fiscal year.

The KEDI projection shows a moderate increase in the money supply, M1-A: 6 per cent in 1980 and 7.1 per cent in 1981. That is in line with the expected growth in nominal GNP in '80 and in '81. Based on Assumption Number 3, that the Federal Reserve will ease monetary and credit conditions in summer of this year, it is anticipated here that there will be a recuperation of the mortgage market in the last quarter. Under the same assumption, the projection concerning the stock market (as measured by Standard and Poor's 500 average index)

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TABLE 07. MONEY AND CREDIT
(Data for "Currency + Demand Deposits" and "Time Deposits, Adjusted" are averages of daily figures; other data are end of period figures)

| Indicator | Unit | 1978* | 1979 | | | | 1979 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Currency+Demand Deposits | bil.$ | 352.8 | 358.4 | 361.7 | 365.4 | 369.7 | 363.8 |
| Time Deposits, Adjusted | bil.$ | 1133.6 | 1422.3 | 1459.6 | 1488.5 | 1515.2 | 1471.4 |
| Consumer Instal. Credit | bil.$ | 275.6 | 278.3 | 284.8 | 290.6 | 298.2 | 298.2 |
| Commerc.and Ind. Loans at Banks | bil.$ | 230.9 | 243.5 | 255.2 | 259.3 | 265.7 | 265.7 |
| Negotiable Cert.of Deposits | bil.$ | 96.6 | 99.0 | 103.9 | 111.9 | 115.6 | 115.6 |
| Mortgages at S&L Assns. | bil.$ | 432.9 | 441.4 | 447.5 | 450.5 | 454.2 | 454.2 |

| Indicator | Unit | 1979 | 1980 | | | | 1980 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Currency+Demand Deposits | bil.$ | 363.8 | 376.1 | 380.2 | 388.4 | 396.8 | 385.4 |
| Time Deposits, Adjusted | bil.$ | 1471.4 | 1576.3 | 1600.2 | 1618.5 | 1636.8 | 1608.0 |
| Consumer Instal. Credit | bil.$ | 298.2 | 304.3 | 309.7 | 312.1 | 316.2 | 316.2 |
| Commerc.and Ind. Loans at Banks | bil.$ | 265.7 | 278.7 | 280.4 | 282.3 | 289.9 | 289.9 |
| Negotiable Cert.of Deposits | bil.$ | 115.6 | 120.1 | 129.9 | 138.6 | 142.8 | 142.8 |
| Mortgages at S&L Assns. | bil.$ | 454.2 | 453.4 | 454.4 | 458.1 | 465.3 | 465.3 |

| Indicator | Unit | 1980 | 1981 | | | | 1981 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| Currency+Demand Deposts | bil.$ | 385.4 | 409.8 | 418.9 | 428.5 | 441.6 | 424.7 |
| Time Deposits, Adjusted | bil.$ | 1608.0 | 1652.3 | 1702.5 | 1760.1 | 1800.2 | 1728.8 |
| Consumer Instal. Credit | bil.$ | 316.2 | 326.8 | 330.9 | 340.6 | 351.2 | 351.2 |
| Commerc.and Ind. Loans at Banks | bil.$ | 289.9 | 290.1 | 300.4 | 312.6 | 321.5 | 321.5 |
| Negotiable Cert.of Deposits | bil.$ | 142.8 | 146.8 | 151.4 | 160.7 | 172.6 | 172.6 |
| Mortgages at S&L Assn. | bil.$ | 465.3 | 470.6 | 477.9 | 488.7 | 492.4 | 492.4 |

does not show any ups or downs of significance this year or next.

In March, deposits were less than withdrawals at savings and loan associations, reversing two months of net gains. However, that net inflow was the weakest in a decade. In March, the net outflow of over $900 million showed the accelerated rate depositors were switching funds to higher yielding accounts.

## 1.8 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Table 08. on page 30)

Recent declines in the short-term interest rates indicate that, at least for now, the March and early April peaks are over. A period of gradual decline is starting to take place.

The general consensus of analysts is that two factors have contributed to that decline: First, is the recession psychology. That contributed to the recent slide in Treasury bill rates. Secondly, expectations that monetary policy will have to be eased are also involved.

There are now some rather optimistic predictions about short-term interest rates. The Wall Street Journal reported that the more optimistic analysts feel that the prime rate could fall as low as 11 per cent or so by the end of the year. The rate on three-month Treasury bills could go as low as 9 or

10 per cent according to such experts.

The current brighter outlook gained strength when bond prices surged as a result of two developments: the cut in the prime rate by some banks and a change in the forecast of Henry Kaufman of Salomon Brothers from even more hikes in the interest rates to the possibility of lower rates. (It seems when Kaufman talks, bond market people listen.)

KEDI is not as optimistic as analysts just mentioned. It is true that a gradual decline in interest rates is also forecast here, but not that fast. The main reason why the short-term interest rates will be prevented from falling rapidly are conditions in international financial markets, and policies of foreign central banks.

High U.S. interest rates and lower rates in the rest of the world played a decisive role in keeping the international value of the dollar from declining further. In the middle of April, when the U.S. short-term interest rates started to drop more significantly, the foreign central banks followed that lead. There are signs, however, that any further declines in this country, will be followed only partially by foreign central banks if at all. The main reason is that inflation in many countries is accelerating or not declining and high interest rates are part of those governments important tools to curb it.

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TABLE 08. INTEREST RATES, YIELDS AND SECURITIES PRICES

| Indicator | Unit | 1978* | 1979 | | | | 1979 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| 3 mo Treas.Bills Rate(new issues) | % | 7.22 | 9.96 | 9.61 | 9.89 | 11.96 | 10.19 |
| Prime Rate | % | 9.06 | 11.75 | 11.76 | 12.31 | 15.23 | 12.76 |
| Mortgage Rate, New Homes | % | 9.30 | 9.97 | 10.05 | 10.17 | 12.21 | 10.60 |
| Aaa Bonds Rate | % | 8.73 | 9.29 | 9.54 | 9.72 | 10.58 | 9.78 |
| Long Term Govt. Bonds Yield | % | 8.48 | 9.03 | 9.19 | 9.36 | 10.65 | 9.56 |
| Standard & Poor's 500 Average | 1941-43=100 | 96.11 | 99.35 | 100.13 | 106.54 | 105.30 | 102.83 |

| Indicator | Unit | 1979 | 1980 | | | | 1980 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| 3 mo Treas.Bills Rate(new issues) | % | 10.14 | 15.07 | 13.62 | 12.02 | 11.87 | 13.15 |
| Prime Rate | % | 12.76 | 17.56 | 18.58 | 18.01 | 17.26 | 17.85 |
| Mortgage Rate, New Homes | % | 10.60 | 12.89 | 13.52 | 13.27 | 42.97 | 13.16 |
| Aaa Bonds Rate | % | 9.78 | 11.72 | 13.41 | 13.05 | 12.48 | 13.67 |
| Long Term Govt. Bonds Yield | % | 9.56 | 12.69 | 13.04 | 12.64 | 12.41 | 12.70 |
| Standard & Poor's 500 Average | 1941-43=100 | 102.83 | 116.21 | 108.72 | 106.51 | 109.24 | 110.17 |

| Indicator | Unit | 1980 | 1981 | | | | 1981 |
|---|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 | |
| 3 mo Treas.Bills Rate(new issues) | % | 13.15 | 12.05 | 11.47 | 11.06 | 10.25 | 11.21 |
| Prime Rate | % | 17.85 | 17.15 | 17.02 | 16.36 | 15.84 | 16.59 |
| Mortgage Rate, New Homes | % | 13.16 | 12.71 | 12.43 | 12.01 | 11.72 | 12.22 |
| Aaa Bonds Rate | % | 13.67 | 12.55 | 12.08 | 11.75 | 10.48 | 11.72 |
| Long Term Govt. Bonds Yield | % | 12.70 | 12.11 | 12.09 | 11.89 | 11.73 | 11.96 |
| Standard & Poor's 500 Average | 1941-43=100 | 110.17 | 110.16 | 115.72 | 117.41 | 116.96 | 115.06 |

If U.S. short-term interest rates fall below the general world level, the value of the dollar abroad will be affected.

Considering the grim outlook for U.S. foreign trade, such a decrease would have a negative effect on our economy and result in contributing to the increase in our inflation rate.

A comparison of present levels of short-term rates and those rates expected by KEDI at the end of this year are given here.

| | Present level | End of 1980 |
|---|---|---|
| Prime rate | 18.5% | 16.5 - 17.0% |
| 3 mo. Treasury bills rate | 16.5% | 11.8 - 12.0% |

Regarding the other rates, it is anticipated here that the long-term government bond yield will not change much more from the present level until about the end of this year, but start to decline throughout 1980.

Mortgage rates will drop by the end of the year from the present rate of 14.5 per cent to the 13.2 per cent range. The calculation by this Institute is for such rates to be in the 11.6 per cent range at the end of 1981.

## 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, personal income for the first quarter 1980 has been selected for comparison. Almost all forecasters underestimated the actual development. Actual data are taken from

the U.S. Department of Commerce, April, 1980 estimate. Forecast data are from Business Forecasts 1980, published by the Federal Reserve Bank of Richmond Va., February 1980. Library of Congress Catalogue Card No: 75-189493. Table below shows the predictions of forecasters and the deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

U.S. PERSONAL INCOME

(First Quarter 1980, bil. $, SAAR)

Actual: 2056.6

| Forecaster | Page in Business Forecasts 1980 | Forecast | % of Accuracy |
|---|---|---|---|
| Manufacturers Hanover Trust | 20 | 1991.9 | -3.1 |
| The First National Bank of Chicago | 22 | 2032.0 | -1.2 |
| University of California | 26 | 2017.5 | -2.0 |
| Cyrus J. Lawrence, Inc. | 27 | 2021.1 | -1.7 |
| Bankers Trust Company | 28 | 2028.9 | -1.4 |
| Goldman Sachs | 29 | 2045.0 | - .1 |
| The Fidelity Bank | 30 | 2050.4 | - .3 |
| KEDI | 31 | 2054.0 | .0 |
| Data Resources, Inc. | 33 | 2043.2 | - .1 |
| Morgan Guaranty Trust Co. | 35 | 2032.9 | -1.2 |